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ARTICLES:

- (1) Ruling and opposition parties gearing up for Upper House election, which is two months away

YOMIURI (Page 3) (Abridged)
May 22, 2007

With this summer's House of Councillors election expected to take place on July 22, just two months away, political parties are making final efforts to determine their candidates. The results of the upcoming election are directly linked to the fate of the Abe administration. Given the situation, both the ruling and opposition

camps are gearing up efforts to win a majority in the Upper House.

Ruling camp to put Abe forward to win support

Liberal Democratic Party Election Strategy Headquarters General Affairs Director Yoshio Yatsu ordered yesterday 15 Lower House lawmakers and their secretaries to strengthen their support for the LDP candidates running in eight single-seat districts that are also their home turfs. Yatsu's instruction followed an independent LDP opinion survey, which had shown close contests in eight prefectures: Yamagata, Yamanashi, Shiga, Nara, Kagawa, Tokushima, Ehime, and Kochi. Yatsu's list of "personal advice" also included Chief Cabinet Secretary Yasuhisa Shiozaki from Ehime.

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The ruling bloc aims to win 64 seats, including those not up for grabs, in order to maintain a majority in the Upper House. If the New Komeito were to keep 13 seats, the LDP would have to win only 51 seats. Yatsu's target is to win 20 single-seat districts out of 29 districts, one seat each in multiple-seats districts out of 18, and 18 proportional representation seats.

The LDP has decided to field a total of 48 individuals for the electoral districts. Before long, the party will endorse former TV-Asahi announcer Tamayo Marukawa as its second candidate for the Tokyo electoral district. The party is likely to replace only one candidate, former Justice Minister Takao Jinnai, who has declined LDP endorsement.

The LDP has also endorsed 33 individuals for the proportional representation segment. The party's endorsement is expected to finish with additional one or two persons, including Advisor to the Prime Minister on the Abduction Issue Kyoko Nakayama, in compliance with Abe's wishes.

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The New Komeito has picked five individuals for mostly large cities, such as Tokyo and Osaka. The party aims at getting all eight proportional-representation candidates elected.

The ruling bloc's basic strategy is to use a "barter cooperative system" in which the New Komeito supports LDP candidates in districts devoid of its own candidates and the LDP shifts its representation ballots to the New Komeito in return. The LDP has also decided to put former Lower House lawmaker Seiichi Eto on its proportional representation list in accordance with Abe's wishes. The New Komeito is considering fielding Kyoko Nakayama, the wife of Lower House member Nariaki Yamanaka, a native of Miyazaki.

The ruling coalition plans to put forward Prime Minister Abe, whose support ratings are bouncing back. Abe plans to pick up trashes with children at the foot of Mt. Fuji during his stumping tour in Yamanashi. He apparently intends to expand the LDP support base by blurring his hawkish image and playing up his consciousness about environmental issues.

Opposition camp aims to force ruling bloc into a minority

"Winning additional several seats would not be a true victory. We must win a majority in order to put an end to LDP-New Komeito politics," declared Minshuto (Democratic Party of Japan) President Ichiro Ozawa in a pep rally held in Niigata City on May 20.

The largest opposition party, which will put 32 seats up for election, has decided to field 48 individuals in 41 prefectures excluding Fukushima, Ishikawa, Shimane, Oita, Miyazaki, and Okinawa. The party has also decided not to field anyone in Oita in deference to the Social Democratic Party but plans to determine its candidates for the remaining six prefectures before the end of the month.

Ozawa eyes winning 15 single-seat constituencies. To win single-seats, the party has many rural area-oriented plans, including one to distribute flyers showcasing an income compensation plan to pay the differences between production costs and market

prices to farmers.

The party has picked 33 proportional representation candidates, including eight individuals affiliated with Rengo (Japanese Trade Union Confederation), a former professional baseball player, and a former president of the Junior Chamber International.

The Japanese Communist Party has officially picked 46 candidates for 46 prefectures excluding Fukui. The party eyes five representation seats. The SDP has determined candidates for 12 prefectures and six representation candidates, including a former Tachikawa mayor. The People's New Party will field its own candidates in four prefectures, back Minshuto candidates in 18 prefectures, and field 12 proportional representation candidates.

Forcing the ruling bloc into a minority is the opposition parties' common goal. The opposition parties are required to join forces in the election while playing up their unique features at the same time.

In the May 16 meeting of SDP bloc chiefs and election committee executives, election chief Sadao Fuchigami underlined the importance of the party's unique policies, citing the results of the recent nationwide local elections. Secretary General Seiji Mataichi also

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said: "We will not automatically back Minshuto candidates just because don't have our own candidates."

Opposition parties speculate that the People's New Party might cause discord in the opposition camp after the election. The Minshuto and SDP have determined their unified candidate for Toyama, PNP leader Tamisuke Watanuki's home turf, but the PNP has yet to decide on its response. "The PNP might be comparing the ruling camp with the opposition bloc with an eye on the post-election period," a Minshuto lawmaker said.

Public evaluation of Abe administration in focus

The upcoming Upper House election will provide the public with the first opportunity to evaluate the Abe administration since its inauguration last September.

The ruling bloc identifies the election as an occasion for the public to judge the administration's achievements, such as educational and civil service reforms. The ruling camp also intends to play up Abe's agenda items, such as constitutional amendment.

Meanwhile, the opposition bloc plans to focus on the question of socioeconomic disparities. Public evaluation of the Abe administration will undoubtedly affect the results of the upcoming election.

(2) 43 lawmakers form parliamentary league to support Prime Minister Abe's foreign policy based on values

ASAHI (Page 4) (Full)
May 18, 2007

A total of 43 junior and mid-level lawmakers belonging to the ruling Liberal Democratic Party (LDP) formed on May 17 a parliamentary league to promote Prime Minister Shinzo Abe's foreign policy focused on values. Most of the 43 Diet members include those who worked together with him regarding the history school textbook issue. Keiji Furuya heads the group and LDP Policy Research Council Chairman Shoichi Nakagawa assumed an advisor post. Most members share Abe's principles. The group members hail from various LDP factions. It appears to be an Abe faction.

The first meeting of the group on May 17 started with Chairman Furuya's speech seeking to constrain China:

"Prime Minister Abe held a Japan-China summit soon after assuming office. But we cannot dispel doubts about China's act of hegemony, including its huge military spending. So China does not share the same common values with Japan."

Nakagawa also expressed a sense of alarm toward China. While calling China Japan's important neighbor, he stated: "We must avoid Japan from becoming one of China's provinces."

Abe visited China and South Korea immediately after he took office in an attempt to repair relations between the two countries that went sour under the government of Prime Minister Junichiro Koizumi. However, in his policy speech delivered in January, Abe mentioned Indonesia and Australia as countries with which Japan shared the same values. The primary aim of the parliamentary group is supporting Abe's diplomatic values.

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Furuya once bolted the LDP after voting against the government's postal-privatization bill but he rejoined late last year. He opposes a review of Article 772 of the Civil Law that states that a baby born to a woman within 300 days of her divorce is presumed to be the ex-husband's offspring. He has been actively working as a core member of the conservative lawmakers.

Citing in his speech on the 17th a human rights protection bill, a bill revising the Imperial House Law, the newly enacted National Referendum Law, and Article 772 of the Civil Law, Furuya stressed: "All directly link to the issues of thought and creed, political philosophy and principles. I want to rally likeminded persons and take action through this group."

All the more because many group members worked together with Abe regarding such issues as the history textbook and abduction issues, the new parliamentary group may play the main role of embodying the conservative policy in the LDP.

Six former postal rebels

Furuya told members of the parliamentary group: "Basically I share many principles with the prime minister."

Furuya, Nakagawa and Deputy Chief Cabinet Secretary Hakubun Shimomura were also members of the "group of junior lawmakers to think of Japan's future and historical education." Abe served as chief of the secretariat for the group. Abe and Furuya have known each other a long time since the two are graduates of the Seikei University. They have similar principles. Some in the LDP say that Abe decided to reinstate the postal rebels because he wanted to have fellow group members like Furuya rejoin the party. Of the 43 members of the pro-Abe group, six were reinstated members.

Eriko Yamatani, a special advisor to the prime minister, conducted activities criticizing sex education. Tomomi Inada and Kyoko Nishikawa raised an objection to a review of 772 Article. Members of the new parliamentary group seem to be more conservative than the "parliamentary league to support a second chance," which backed Abe in the last fall's LDP presidential race.

Regardless of their "principles," members of the Machimura and Ibuki factions are participating in the group. In contrast, lawmakers from the Koga, Tanigaki and Nikai factions are main members of the parliamentary league to place priority on Asia.

Members of the parliamentary league to support Abe's foreign policy base on values

Machimura faction: Hakubun Shimomura; Shinsuke Okuno; Ichiro Miyashita; Yasuhide Nakayama; Koichi Hagiuda; Masaaki Akachi; Tomomi Inada; Shuichi Takatori; Yuichi Ogawa; Tsukasa Kobiki; Naoki Okada; Eriko Yamatani; Nobuo Kishi

Tsushima faction:

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Hiroshi Imazu; Toru Toida; Tatsuharu Mawatari; Atsushi Watabe

Koga faction:

Seiji Kihara; Jun Hayashi

Ibuki faction:
Shoichi Nakagawa; Toshio Ogawa; Kyoko Nishikawa
Kenta Matsunami;
Chubei Kagita; Yohei Matsumoto
Yoshio Nakagawa; Tsukasa Akimoto

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Komura faction:
Tokuhiko Akagi; Katsuko Nishimoto

Tanigaki faction:
Yasuhiro Ozato

Aso faction:
Takeshi Iwaya; Keisuke Suzuki

Lawmakers with no factional allegiance:
Kenji Furuya; Masahiro Imamura; Kenichi Mizuno; Taku Eto; Ryota
Takeda; Hiroshi Moriya; Sadahisa Furukawa; Minoru Kihara; Yoji Muto

(3) Convention of special postmasters' association: Trying to repair
relations with LDP

SANKEI (Page 2) (Full)
May 21, 2007

The National Association of Special Postmasters (Zentoku) composed
of about 18,900 special postmasters across the nation held an annual
convention on May 20 in the city of Hiroshima. The association once
invited Liberal Democratic Party (LDP) lawmakers connected to postal
interests (yusei-zoku) as guests to their conventions. Last year's
convention, which took place after postal-privatization had been
decided, was a politically-charged event, With many anti-postal
privatization lawmakers participating. No political party leaders
were invited to this year's convention. The decision is viewed as a
signal to starting a move to repair ties with the LDP.

In his speech delivered as a guest, Internal Affairs and
Communications Minister Yoshihide Suga expressed consideration to
Zentoku, saying:

"Without your cooperation, postal privatization will not be
successful. I would like to lay the groundwork for privatizing Japan
Post so that you will be able to provide postal services with
confidence."

Suga and House of Councillors member Kensei Hasegawa of the People's
New Party were the only two politicians who were invited to this
year's convention.

Following Suga and Japan Post President Yoshifumi Nishikawa,
Hasegawa delivered a speech as an advisor to Zentoku, in which he
stopped short of saying: "It was good that we were able to hear
positive views from government and business leaders (Suga and
Nishikawa). Legal change will be needed."

Anti-postal-privatization lawmakers -- including People's New Party
President Tamiyuki Watanuki, who bolted the LDP after voting against
the postal-privatization legislation, and Hosei Norota, an
independent and former agriculture minister -- assembled in last
year's convention in Aomori, raising voices, "Let's make the
government review the Postal Privatization Law!"

One of the reasons for a change in the mood is probably that former
postal rebels reinstated in the LDP "had Japan Post accept requests
from special postmasters," said a source familiar with Zentoku.

Nishikawa, who became Japan Post president in April, announced a
review of the existing policy, as well as a policy of utilizing

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Zentoku's liaison conference to promote operations, which controls
special post offices.

Therefore, there reportedly is growing concern in Zentoku, mainly among mid-level members, that rather than relying only on the People's New Party, the association needs to work on the ruling LDP as a pragmatic response. The rumor is that the People's New Party and the LDP may join hands depending on the result of the July Upper House election. So, Zentoku appears to have determined that it should weaken ties with only that political party.

Referring to the fact that he was not invited to the convention in a press conference on May 16, Watanuki stated: "With the Upper House election drawing closer, the spirit of the convention is not that political events dominate the convention."

Taiju-kai, a political organization composed of retired special postmasters, has decided that its regional organizations will support People's New Party's candidates on their own decision. Taiju took a position that there would be no change in cooperation with the People's New Party.

There is a view that since Taiju has not fielded any its candidates, it has probably not tried to secure votes.

One of the senior Taiju members in the eastern Japan said:

"Since we owe something to the People's New Party, which opposed postal-privatization, we will support the party in the upcoming election. We don't know what will happen after the July election."

(4) Government to create regional corporate revitalization body next spring

NIHON KEIZAI (Top Play) (Full)
May 19, 2007

The government decided yesterday to establish next spring a regional industrial revitalization corporation (tentative name) tasked with assisting the business rehabilitation of local smaller companies. This will be a regional version of the Industrial Revitalization Corporation of Japan (IRCJ), which was disbanded this March. Under the government's plan, the Deposit Insurance Corp. of Japan will provide all the capital and extend government guarantees on procured funds. The new body will also help troubled firms revitalize their business by taking stakes in them, buying loans, and dispatching personnel. Additionally, they will handle the liquidation of failed joint ventures of local government and business (third sector). The government is hoping to spotlight the regional IRCJ as a centerpiece in a package of its regional revitalization measures, but there are still many tasks to clear, such as how to select companies eligible for revitalization assistance and how to maintain management discipline.

The Cabinet Office crafted this plan based on Prime Minister Shinzo Abe's call for boosting the growth potential of regional economies. Private-sector members of the Council on Economic and Fiscal Policy, chaired by Prime Minister Abe, including Nippon Keidanren (Japan Business Federation) Chairman Fujio Mitarai, will announce the plan in a meeting on May 25. The framework will be incorporated in the government's economic and fiscal policy guidelines for 2007 due out in June, with the aim of submitting related legislation to an extraordinary Diet session in the fall.

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The new entity, a joint-stock company fully financed by the Deposit Insurance Corp. of Japan, will be capitalized at 50 billion yen, with 50 billion yen set as an aid threshold. The period of establishment will be five years, the same time limit imposed on the IRCJ.

The staff of about 100 will be recruited from former IRCJ members and other experts on corporate rehabilitation.

Adopting almost the same rehabilitation process as that of the IRCJ, the regional body will assess the assets held by troubled companies in response to their applications for assistance. An expert panel will judge whether to provide aid.

The rehabilitation entity will dispatch private-sector rehabilitation specialists to the selected companies. It will also purchase stakes in the companies and loans. The regional IRCJ will offer assistance in cooperation with regional rehabilitation funds backed by local finance institutions, and if it deems it necessary, the new body will seek debt waivers.

The regional IRCJ will also be tasked with handling the disposal of failed joint ventures of local government and business. With huge amounts of equity investment and loans poured into the so-called third sector by local governments, regional financial institutions, and government-affiliated financial institutions, coordinating conflicting interests is difficult. As a result, the liquidation process has been delayed in many cases. The new body will be responsible for coordinating such efforts, charging commissions to the relevant local governments.

The former IRCJ helped reconstructing Kanebo and Daiei by utilizing the know-how of private-sector specialists. The regional version aims to make use of such success cases for regional revitalization, but there are many tasks that must be cleared away. It is important to establish a fair mechanism in selecting companies eligible for assistance and free from any improper political intervention. An increasing number of private-sector rehabilitation funds have already been established. In order to prevent the regional IRCJ from pressuring private-sector businesses and taking measures to survive unnecessary firms, management discipline is required.

(5) Panelists project 2% economic growth in FY2007, given brisk internal, external demand

NIHON KEIZAI (Page 3) (Slightly abridged)
May 19, 2007

Participants: Akira Kojima, chairman of the Japan Center for Economic Research
Kiichi Murashima, economist at Nikko Citigroup Securities Co.
Kazuo Furukawa, president at Hitachi Ltd.
Mitsuru Taniuchi, professor at Waseda University

The Nihon Keizai Shimbun and the Japan Center for Economic Research held a debate on the state of the economy at the Nikkei Hall in Otemachi yesterday. The panelists shared the view that both domestic and external demand remains brisk although there are such risky elements as the slowdown of the United States economy. One participant said that the Japanese economy's growth potential is increasing owing to restructuring efforts by companies. All discussants estimated the nation's economic growth rate in FY2007 at a level in the lower 2% range.

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Attention focused on slowing US economy

-- How do you analyze the current state of the Japanese economy?

Taniuchi: The US experienced a decade-long economic expansion in the 1990s. In Britain, the period of expansion has stretched to 15 years. In the case of Japan, as well, conditions for a long-term economic expansion are being prepared. The supply side has become more competitive over the past ten years because Japan revised corporate legislation, including the Corporate Law, revised the Antimonopoly Act, scrapped the cross-shareholding system, and took deregulatory measures.

Furukawa: Looking at the slowdown of the US economy, the temporary lull of capital investment, and the inventory adjustment of electronic components, we tend to see the Japanese economy as about to enter a prolonged "pause" in growth. But since such emerging countries as China and Russia are performing well, exports will remain steady. Capital investment is also showing a very steady tone. Once the long period of deflation is set to end, spending habits will improve. The economy is expected to pick up again in the latter half of 2007.

Murashima: Personal spending and exports supported the economic

growth in the January - March period. The focus is on whether these two main factors continue to be strong. Exports to developing countries have been on the rise. On consumption, however, I am carefully watching the trend. The hike in the tax on individual income in June, following the transfer of tax revenues to local governments, will cancel out increases in bonuses, so consumption may slacken in the summertime.

Kojima: I think the current long-term economic expansion led by the private sector will last another year or more. The economy is in the final phase of emerging from deflation. The process of returning dividends and interest earnings from companies to household accounts is slowly setting in. Japanese companies are forming new business models as the economy globalizes.

-- What do you think about risks looming over foreign countries' economies, such as the US economy?

Murashima: In the US, only the housing market and some manufacturing industries are losing momentum, so there will be no adverse impact on the global economy and Japan's exports. The US consumption growth rate is expected to drop from the current annual 4% to 3%, but since increases in financial assets are likely to set off the drops in housing prices, I think the US economy will remain strong.

Kojima: Under its renewed structure, the global economy is now able to grow even without depending on the economies of major member countries of the Organization for Economic Cooperation and Development (OECD). Demand from emerging countries is growing enough to cover the reduced portion of the US economy. In the US economy, unless the path of personal consumption slows down, demand will not significantly drop.

Furukawa: I do not think the US economy will take a rapid downward turn. If consumer-price growth rates slow, the Federal Reserve Board (FRB) may lower interest rates. Even if the growth rate remains low, the US economy is expected to remain steady in tone. The Chinese economy's potential growth rate is likely to make a soft landing,

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possibly reaching 9%.

Taniuchi: Even if the world economy is not in good shape, the Japanese economy may not be seriously affected, because its current economic growth is 70% dependent on domestic demand.

-- How about future prospects for the Japanese economy?

Kojima: The economic growth rate in real terms is expected to be 2.5% in fiscal 2007 and fiscal 2008. The 225-issue Nikkei Stock Average at the end of the year may likely be on the level of 18,000. The current moderate high-yen trend is expected to continue into the future.

Murashima: I think the economy will grow about 2.2% in real terms both in FY 2007 and 2008. The Nikkei Stock Average may likely be the 18,000 mark at the end of the year.

Furukawa: In FY2007, I estimate that the growth rate will be around 2% and that the value of the yen will start rising in the latter half of the year, reaching 115 yen to the dollar at the end of the year.

Taniuchi: I presume that the economy will grow about 2.0-2.5% in real terms in FY2007. Even 2.5% is conceivable. Stock prices will also boost, I think.

Requests to Abe administration coming in succession

In the debate, panelists presented requests about Abe administration's economic policies. The administration released a program to accelerate the nation's growth dynamics in April, setting the goal of increasing the growth rate of productivity 1.5-fold during five years of period, Taniuchi criticized the program as lacking any basic strategy." He stressed that the administration should take measures to promote market principles, such as those to

further promote deregulation and to make the labor market more flexible, listing specific cases in the US and Britain.

Furukawa said: "It is necessary for industrial circles to more fully utilize IT (information technology) and promote innovation."

On tax system reform, Furukawa referred to the about 40% effective corporate tax rate and said: "The rate should be lowered to enable Japanese firms to join international competition on an equal footing." Taniuchi insisted that the government should reduce the effective corporate tax rate to 35% but raise the consumption tax rate in order to reduce the government's huge debts.

Kojima introduced a case in which more positive effects have been produced owing to a reduction in IT-related taxes than those generated by tax cuts. He said: "When the government decides to increase or reduce taxes, it should take a strategic point of view. If valuable financial resources are used, the government should keep in mind the need to boost potential growth and productivity.

Over the Bank of Japan's financial policy, the participants shared the view that if the central bank raises the key interest rate once every six months, there will be only minor effect on the economy. Murashima made this prediction: "The BOJ would raise the interest rate in November. With the rate raised by 0.25% twice next year, the policy interest rate would be 1.25% at the end of next year."

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SCHIEFFER